



Treasurer's Office

Senate Local, Urban and State Affairs Committee

Tuesday, October 16, 2007

Senate Bill 658

Testimony by Edward Bradford, City of Manistee Finance Director\Treasurer

Honorable Chairman VanWoerkom and Members of the Committee: I want to thank you for this opportunity to speak to the Committee today. My name is Edward Bradford and I am the Finance Director and Treasurer for the City of Manistee.

I come in front of the Committee to voice my support for SB 658, and explain the rather unique circumstances that led to the introduction of this bill. SB 658 would amend PA 20 of 1943 – Investment of Surplus Funds of Political Subdivisions by adding a Section 7. Section 7 would address the investment of long term funds derived from oil and gas royalties on municipal-owned property.

A little background is in order. The City of Manistee has the good fortune of being located at the southwestern end of the Niagaran Reef formation, the oil and gas producing belt that cuts across Northern Michigan from northeast to southwest (Exhibit 1). The oil and gas deposits in this formation were developed mainly in the late 1970's and early 1980's. Many of these wells are still producing today. In the early 1980's, Aztec Producing Company, after much research and significant public input, developed the considerable oil and gas resources that lie under the City of Manistee. The result was several oil and gas wells that are producing yet today (Exhibit 2). The State of Michigan has also benefited from these wells thru the mineral rights that it owns on Lake Michigan bottomlands.

Shortly after these wells started producing, the citizens of the City of Manistee wisely voted to amend the City Charter and establish an Oil and Gas Trust fund to preserve the principal and provide a stream of investment income for future generations. All royalties received by the City are set aside and the City is limited to spending the earnings on the corpus.

Today, Manistee's Oil & Gas Fund has about \$6,700,000. The fund is overseen by a Council appointed Oil & Gas Investment Board. Currently, the City is limited in investing the principal of this fund by previously mentioned PA 20 of 1943. This statute requires very safe, very liquid investments. It is set up this way to avoid investment losses on money that is needed for current municipal operations.

Municipal pension funds, on the other hand, are governed by a different law, PA 314 of 1965 – Public Employee Retirement System Investment Act. This statute allows a much wider array of possible investments, including corporate bonds and equities. These investments entail higher levels of risk, but also higher returns. This statute recognizes the long-term nature of pension funds, and therefore allows investments that more appropriately match the long-term investment horizon of pension funds.

The Michigan Natural Resources Trust Fund is also a long-term permanent trust fund created from oil & gas royalties. It can be invested under PA 314 of 1965. The statutory language reads:

“The state treasurer shall direct the investment of the trust fund. The state treasurer shall have the same authority to invest the assets of the trust fund as is granted to an investment fiduciary under the public employee retirement system investment act, 1965 PA 314, MCL 38.1132 to 38.1140l.”

The parallels between the State’s MNRTF and the City’s Oil & Gas Fund are striking.

SB 658 would give communities that have long term oil & gas trust funds the ability to invest them under PA 314 of 1965, exactly like the MNRTF. This small change is good public policy and is not without precedent. In 1999, the legislature, recognizing the impending challenge and long term nature of paying for municipal retiree health care, enacted PA 149 of 1999 - Public Employee Health Care Fund Investment Act. This act also allows for the investment of municipal funds to pay for retiree health care under PA 314 of 1965.

To summarize, SB 658 is narrowly tailored, rooted in precedent, and simply provides municipalities with the same investment options for oil and gas funds that are already available to the State. I respectfully request that the Committee support this important piece of legislation which will greatly benefit the current and future generations of Manistee residents.

I also want to take this opportunity to thank Honorable Senators McManus, VanWoerkom, Allen, Jansen and Gleason for introducing SB 658.

Thank you for your consideration.

EXHIBIT 1

Map of Niagaran Oil & Gas Reef

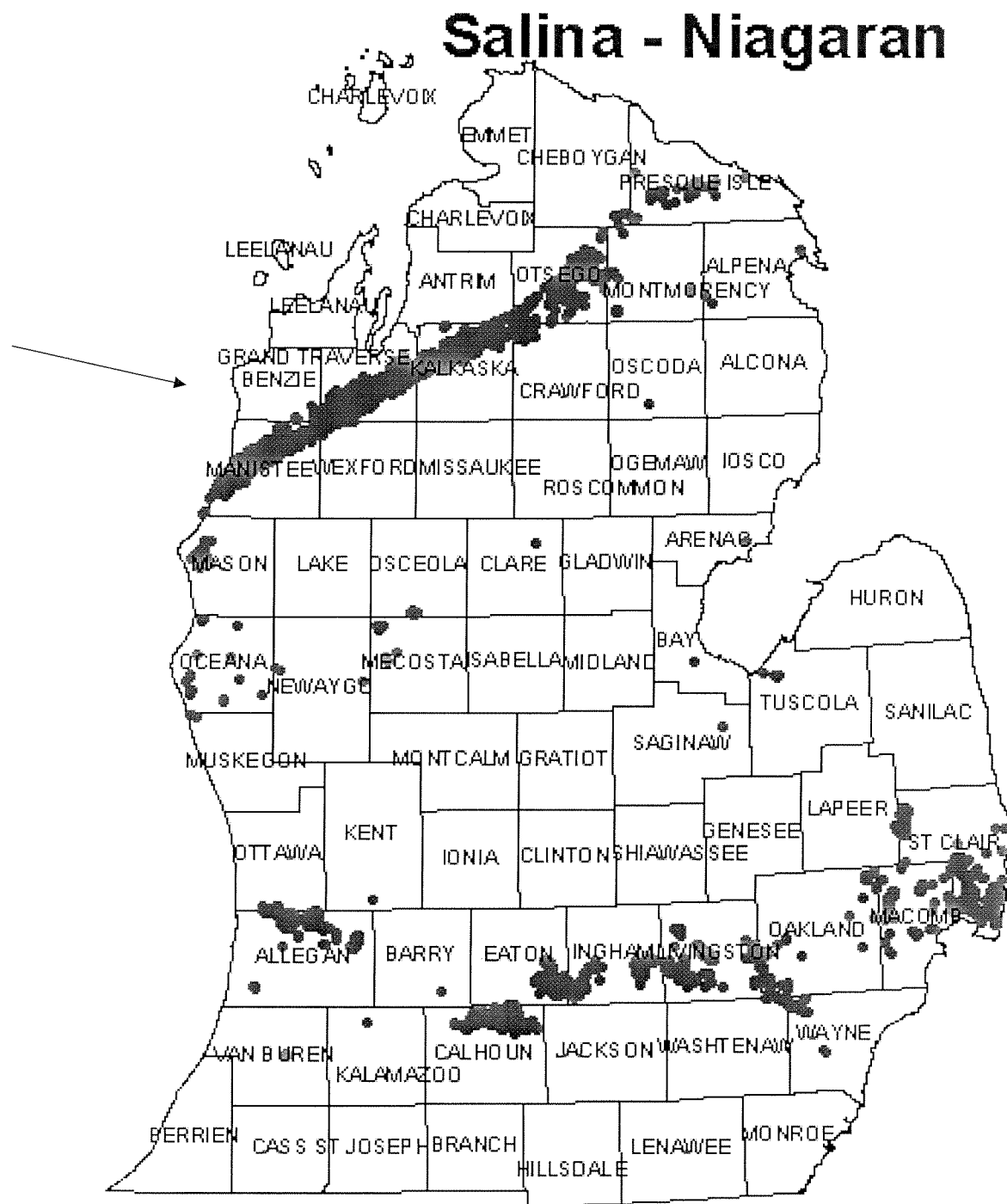
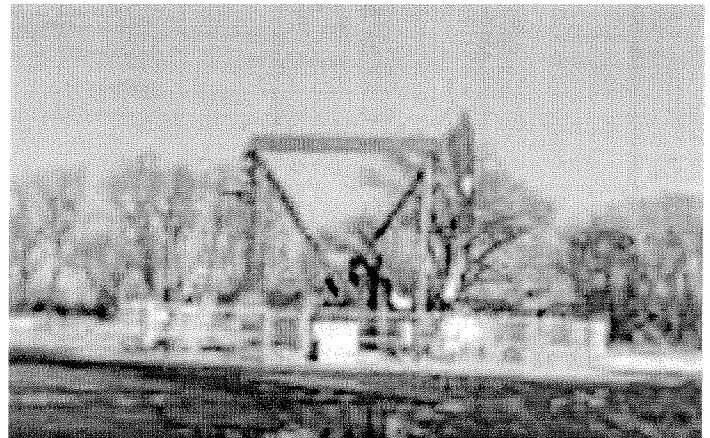
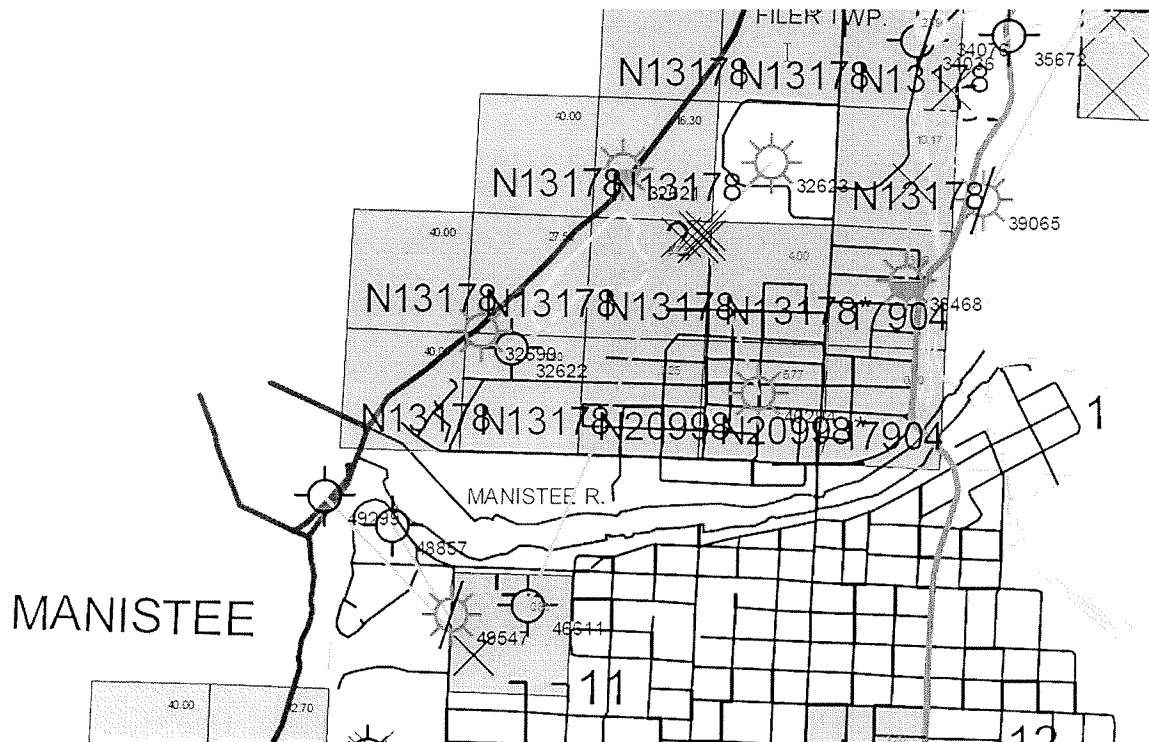


EXHIBIT 2

Oil & Gas Wells in Manistee from DNR Website



Aztec Processing Facility and Wells in City Limits



P.O. Box 358 • Manistee, Michigan 49660-0358 • www.manistee.mi.us

CITY HALL
70 Maple Street

CITY MANAGER
231.398.2801

CITY ASSESSOR
231.398.2802

BUILDING INSPECTOR
231.398.2806

PLANNING, ZONING &
COMMUNITY DEV.
231.398.2805

CITY CLERK
231.398.2803

CITY TREASURER
231.398.2804

WATER BILLING
231.398.2807

ADMINISTRATION
FAX 231.398.2846

CLERK/TREASURER
FAX 231.398.2848

POLICE DEPARTMENT
70 Maple Street
231.398.2843
FAX 231.398.2842

FIRE DEPARTMENT
281 First Street
231.398.2844
FAX 231.398.2845

PUBLIC WORKS
280 Washington St.
231.398.2840
FAX 231.398.2841

PARKS DEPARTMENT
231.398.2849

WATER MAINTENANCE
231.398.2846

WASTEWATER PLANT
50 Ninth St.
231.398.2847



September 24, 2007

The Honorable Senator Michelle McManus
P.O. Box 30036
Lansing, MI 48909-7536

Re: SB 658

Dear Senator McManus:

I am writing in support of Senate Bill 658. This bill would allow local units of government to invest long-term assets derived from oil and gas royalties in the same manner that the State of Michigan invests the assets of the Michigan Natural Resources Trust Fund.

This bill is sound public policy. By making this simple change, these assets could be invested in more suitable investment vehicles than are currently available under State law. Furthermore, it will enable communities to help stabilize their finances and fund capital projects in the current challenging economic environment.

This bill is important to the City of Manistee. Our citizens wisely voted many years ago to permanently set aside the principal generated from the considerable oil and gas development in the City. By investing this in a more prudent fashion under the proposed legislation, the income derived from this corpus should increase significantly. I have attached a copy of a resolution passed by the Manistee City Council supporting this change.

Thank you for your leadership in introducing this important piece of legislation.

Sincerely,

Cyndy Fuller, Mayor
City of Manistee

07-73

5-1-07



City of Manistee

Resolution Regarding Allowable Investments for the Oil & Gas Fund

WHEREAS, the City of Manistee has established an Oil & Gas permanent trust fund to collect royalties from mineral rights on City-owned property, and;

WHEREAS, the principal of this fund has been Charter protected by the residents of the City of Manistee so the investment earnings might benefit future generations, and;

WHEREAS, the City is currently limited by PA 20 of 1943 – Investment of Surplus Funds of Political Subdivisions to certain types of permissible investments, and;

WHEREAS, the types of investments allowed by PA 20 of 1943 are not adequate to prudently and effectively invest long-term funds such as the Oil & Gas Fund, and;

WHEREAS, the State of Michigan has established the Michigan Natural Resources Trust Fund; a long-term, permanent trust fund created by royalties from mineral rights on State-owned land, and;

WHEREAS, the State of Michigan also recognizes the limitation of PA 20 of 1943 and has allowed the Michigan Natural Resources Trust Fund be invested under PA 314 of 1965 – Public Employee Retirement System Investment Act, and;

WHEREAS, it is reasonable to expect that this policy should be applied to trust funds managed by local units of government as well;

THEREFORE, BE IT RESOLVED THAT; the City Manager and City Finance Director are directed to work with the State Legislature to enact legislation that will allow the City to invest its Oil & Gas fund under guidelines established by the Public Employee Retirement System Investment Act.

FURTHER SAYETH NOT THIS RESOLUTION.

Cyndy Fuller 5-1-07
Cyndy Fuller, Mayor Dated

ATTEST:
Michelle Wright 5/1/07
Michelle Wright, City Clerk Dated